

Message Text

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TAGS: BEXP, EFIN, PINT, AR

SUBJECT: ARGENTINA TURNS THE CORNER - A PRELIMINARY ASSESSMENT

1. THE EMBASSY HAS BEEN CONCERNED IN RECENT WEEKS ABOUT THE VERY NEGATIVE FEEDBACK WE HAVE BEEN GETTING FROM THE U.S. ABOUT THE SITUATION IN ARGENTINA. THIS DOOMSDAY VIEWPOINT ON ARGENTINA HAS BEEN REFLECTED IN PRESS STORIES, IN THE QUESTIONS U.S. BUSINESS VISITORS ASK, AND PERHAPS MOST IMPORTANTLY FOR THE U.S. BALANCE OF PAYMENTS, IN THE DIFFICULTIES ARGENTINE FIRMS ARE HAVING IN OBTAINING CREDITS IN THE U.S. THE PURPOSE OF THIS MESSAGE IS TO GIVE WASHINGTON AGENCIES A SHORT, UP TO DATE POLITICO/ECONOMIC ASSESSMENT WHICH WE HOPE WILL PUT THE ARGENTINE SITUATION IN PERSPECTIVE, AND HIGHLIGHT THE SLOW BUT NEVERTHELESS SIGNIFICANT CHANGES WHICH HAVE OCCURRED HERE, STARTING WITH THE DEATH OF GENERAL JUAN DOMINGO PERON.

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2. ARGENTINA HAS PROBABLY TURNED A CORNER IN THE PAST FEW MONTHS. THIS FACT IS PERHAPS ONLY NOW BECOMING APPARENT. MANY OF THE ELEMENTS OF THIS CHANGE WERE REPORTED IN OUR LAST POLITICAL QUARTERLY SUMMARY, BEGINNING WITH THE GOVERNMENT'S CONVOCATION OF THE OPPOSITION PARTIES TO DISCUSS THE PROBLEM OF TERRORISM. THE RESULTING CONSENSUS PROJECTED ON A NATIONAL SCALE HAS RESULTED IN THE FIRST DETERMINED AND EFFECTIVE ATTEMPT BY THE GOA TO PUT DOWN THE INSURGENCY. DESPITE THE GUERRILLAS' CONTINUED POTENTIAL TO STAGE KIDNAPPINGS AND ASSASSINATIONS, INCLUDING ARMY AND POLICE OFFICERS, AS WELL AS TO MAINTAIN A CONTINUING THREAT AGAINST FOREIGN DIPLOMATS, RECENT WEEKS HAVE GIVEN EVIDENCE OF SIGNIFICANT SUCCESSES ON THE ANTI-GUERRILLA FRONT INCLUDING THE ARREST OF THE MURDERERS OF TWO OF THE ASSASSINATED ARMY OFFICERS. PUBLIC OPINION CONTINUES TO BE WITH MRS. PERON IN THIS STRUGGLE. UNLESS HER SECURITY FORCES INDULGE IN INDISCRIMINATE REPRESSION SHE IS LIKELY TO RETAIN THIS SUPPORT AND EVENTUALLY EFFECTIVELY SUPPRESS THE GUERRILLA GROUPS. JUST AS IMPORTANTLY, MRS. PERON RETAINS THE SUPPORT OF THE TWO MOST POWERFUL PRESSURE GROUPS IN ARGENTINE SOCIETY, THE ARMED FORCES AND LABOR. BOTH ELEMENTS SUPPORT HER UNQUALIFIEDLY ON THE SECURITY FRONT. THEY, THE LEGAL OPPOSITION AND THE BUSINESS COMMUNITY CONTINUE TO SUPPORT HER AS THE BEST AND PERHAPS ONLY VISIBLE HOPE FOR THE TRANSITION PERIOD BETWEEN HER HUSBAND'S DEATH AND THE 1977 PRESIDENTIAL ELECTIONS. THOUGH NOT ALL MAY BE WILLING TO ADMIT IT YET, MRS. PERON IS HANDLING HERSELF WITH MUCH MORE "ACIERTO" AND APLOMB THAN ANYONE EXPECTED.

3. THE MUCH PUBLICIZED "STATE OF SIEGE" IMPLIES PRACTICALLY NOTHING FOR THE AVERAGE ARGENTINE OR THE FOREIGN VISITOR. THERE ARE NO CURFEWS AND NO TROOPS IN THE STREET. CORRIENTES AND LAVALLE STREETS ARE JAMMED WITH MOVIEGOERS PRACTICALLY EVERY EVENING WELL PAST MIDNIGHT. LIFE GOES ON AS USUAL. BUSINESS VISITORS MAY, IN FACT, FACE LESS DANGER THAN THEY WOULD ON THE STREETS

OF MANY MAJOR WORLD CITIES. THE ECONOMIC POLICIES OF FORMER MINISTER OF ECONOMY JOSE BER GELBARD WERE STEADILY ERODING THE PRIVATE ENTERPRISE BASES OF ARGENTINA'S ECONOMIC LIFE. HIS PRICE CONTROL POLICY, DIRECTED TOWARDS TRANSFER OF INCOME TOWARD THE URBAN WORKING CLASS AT THE EXPENSE OF COMPANY PROFITS, COUPLED WITH MASSIVE BUDGET DEFICITS AND BALOONING MONEY SUPPLY, RESULTED IN A SERIOUS LIMITED OFFICIAL USE

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DECLINE IN BUSINESS CONFIDENCE AND INVESTMENT, A REKINDLING OF INFLATION, AND CONTRIBUTED TO SERIOUS SUPPLY SHORTAGES, ALL OF WHICH THREATENED MRS. PERON'S POLITICAL BASE.

4. DR. ALFREDO GOMEZ MORALES, WHO REPLACED GELBARD IN OCTOBER, HAS INJECTED NEW CONFIDENCE IN BUSINESS BY MAKING THE PRICE AND INCOMES POLICY MORE FLEXIBLE AND IS ATTEMPTING TO DEAL WITH INFLATION BY SEEKING TO REDUCE THE BUDGET DEFICIT. THE AUTO

INDUSTRY, FOR EXAMPLE, AFTER 18 MONTHS OF OPERATING LOSSES, HAVE BEEN ENABLED IN PRACTICE TO SET THEIR OWN PRICES, WITHIN NEW GOVERNMENT PRICING GUIDELINES. PRACTICALLY ALL THE MAJOR SECTORS WHICH WERE IN DIFFICULTIES HAVE BEEN AWARDED INCREASES IN THE PAST FEW WEEKS, RANGING FROM STEEL TO WHEAT. GOMEZ MORALES' NEW TEAM HAVE EVEN BEGUN TO TALK PUBLICLY OF REVISING GELBARD'S FOREIGN INVEST-

MENT LAW. GOMEZ MORALES IS HIGHLY RESPECTED BOTH IN ARGENTINE BUSINESS

COMMUNITY AND IN INTERNATIONAL FINANCIAL CIRCLES AND THE GENERAL OPINION IS THAT IF ANYONE CAN MAKE THE NEEDED CHANGES, IT IS HE.

5. WHILE IT WILL BE MANY MONTHS BEFORE THE NEW ECONOMIC TEAM, EVEN WITH THE BEST OF INTENTIONS, WILL BE ABLE TO SOLVE THE PROBLEMS CREATED BY THEIR PREDECESSORS, THE BUSINESS CLIMATE IS IMPROVING. MOST BUSINESSMEN ARE SEEING THEIR INCOME STATEMENT MOVE INTO (OR AT LEAST CLOSER TO) THE BLACK FOR THE FIRST TIME IN MANY MONTHS. AT END OCTOBER, ARGENTINA HAD GROSS FOREIGN EXCHANGE RESERVES OF ABOUT \$1.6 BILLION. GNP GROWTH FOR THE YEAR WILL BE ABOUT 6 PER CENT. BECAUSE IT PRODUCES 85 PER CENT OF ITS OWN PETROLEUM REQUIREMENTS AND HAS ABUNDANT HYDROELECTRIC POWER RESOURCES IT IS JUST NOW BEGINNING TO TAP, NOT TO MENTION ITS GREAT POTENTIAL TO CONTINUE EXPORTING FOODSTUFFS, ARGENTINA'S ECONOMIC PROSPECTS IN THE MEDIUM AND LONG TERM ARE GOOD, PARTICULARLY IF IT CONTINUES MOVING TOWARDS GREATER POLITICAL STABILITY. IT WILL REMAIN ONE OF THE BEST MARKETS IN LATIN AMERICA FOR U.S. EXPORTS.

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